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The Colombian Economy: Some Problem Areas

The Barco administration is slowly defining its economic policy. Still in the discussion phase are: urban and rural economic reform programs, a plan to aid areas suffering from the insurgencies, reorganization of the electrical power sector, and a reform of the development planning system. A tax reform law was approved by congress in December 1986. [REDACTED]

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The Colombian congress, which reconvenes in late July, will review a bill that aims to ease the terms of entry for foreign investment in the banking system and contains preliminary guidelines for debt-for-equity swaps in the banking sector. A broad political consensus in support of foreign investment in the financial sector has emerged because many Colombians see this as a means of strengthening the financial system without draining off government resources, as was done in the past. A five-year long reform of the ailing domestic banking system--which has suffered from a lack of liquidity, widespread corruption, and insider loans made by the banks--has left the banking sector in its best shape in a decade, but more needs to be done. [REDACTED]

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To attract investment and technology in the computer and related services sector--areas which are currently under development--the government has decided to make patent and trademark legislation more effective. [REDACTED]

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This written briefing was requested by the US Export-Import Bank. It was prepared by analysts of the Office of African and Latin American Analysis and coordinated with the Office of Global Issues. This analysis is based on information as of 4 June 1987. Comments and questions may be directed to the Chief, South America Division, ALA [REDACTED]

25X1

ALA M 87-20032

25X1

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[redacted]

After nine months in office, Barco is still emphasizing his social and economic approach to counterinsurgency, but the President and the public are increasingly concerned about the security situation. Barco's two big problems are narcotics trafficking and insurgency. He remains committed to combating the export of illegal drugs. [redacted]

25X1

The drug trade has a profound influence on the Colombian economy, manifest in the far-reaching power of major trafficking organizations. Illegal earnings from cocaine and marijuana smuggling have increased, and probably represent at least 4 percent of GDP. Drug earnings are Colombia's second most important source of income after coffee--equivalent to about 20 percent of legal exports in 1985, according to US Embassy reporting. [redacted]

25X1

Less than 5 percent of these revenues return to Colombia--the rest stays in the hands of intermediaries abroad, especially in the United States. The drug proceeds that are repatriated support a wide variety of legitimate businesses, however, including legal and economic consulting firms, currency exchange houses, and thousands of retail front businesses. Drug money generally enters Colombia in the form of US dollars, gold, and other goods, or is disguised through the fraudulent invoicing of imports and exports. Illicit imports financed by drug money--mostly consumer goods--amount to about \$400 to \$500 million per year. [redacted]

25X1

Insurgent attacks on the economic infrastructure is the other main problem. Attacks on pipelines, electric power pylons, and other economic targets have caused more than \$135 million in damage during the last 12 months. The Cano Limon oil pipeline, the main export outlet, has been the major target, but thus far repairs have been made quickly enough to avoid serious oil export losses. Guerrilla activity is also intensifying in the rich northwestern agricultural region of Uraba, which generated \$200 million in banana exports last year, and in Western Antioquia, where rebels recently blew up power installations, temporarily paralyzing gold mining operations for the second time in six months. [redacted]

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Colombian officials have stressed their intention to counter insurgent attacks against economic targets. They have also promised that the oil basin along the Ecuadorean border would be opened to foreign investors. [redacted]

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If the economy performs as well as expected during the Barco administration, drug traffickers may take advantage of high real domestic interest rates to return an increasing amount of cash to Colombia. Even if Barco tries to reduce the influence of drug

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money on Colombian society, the government is unlikely to inflict serious financial blows on major traffickers unless concerted international efforts are made to monitor and curb drug money flows. [REDACTED]

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Barco has requested congressional approval to increase Colombia's foreign debt obligations by \$5 billion during 1987-90 to carry out the economic reform program he believes is essential to solve the country's complex internal security problems. Bogota is seeking \$3 billion during 1987-90 to close its projected financial gap and avoid a debt rescheduling and would float bonds and other instruments in international financial markets to raise the remaining funds. For 1987, total foreign investment is projected at about \$500 million, but these flows are expected to decline. [REDACTED]

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Bogota wants to make coal a key foreign exchange earner in coming years--annual export earnings could exceed \$1 billion by 1990, according to government projections. Excellent thermic quality, low sulphur and ash content, and good geographic location make Colombian coal an attractive energy source. The long-term goal is to capture 10 percent of the world coal market (40-50 million tons) by the year 2000 with domestic consumption at 20 million tons. According to US Embassy reporting, Colombia could benefit from continuing political problems in South Africa by eventually replacing it as a supplier in some world markets in the Far East and Europe. Other Colombian coal customers include the United States, Japan, Israel, Puerto Rico, Mexico, Central America, and the Caribbean. [REDACTED]

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Nonetheless, there are some clouds on this horizon. Some economic experts consider the government coal export projections optimistic. Guerrillas and drug traffickers operating near some potential coal projects may hinder expanded coal production, and politically motivated union demands may end the honeymoon between Cerrejon North coal company management and the communist-led labor union. [REDACTED]

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